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**POLLARD BANKNOTE REPORTS  
2<sup>ND</sup> QUARTER FINANCIAL RESULTS AND  
REAPPOINTMENT OF INDEPENDENT DIRECTOR**

**WINNIPEG, Manitoba, August 10, 2022 /CNW/ - Pollard Banknote Limited** (TSX: PBL) ("Pollard") today released its financial results for the three and six months ended June 30, 2022 and announced the reappointment of Dr. Jerry Gray to the Board of Directors.

**Results and Highlights for the Second Quarter ended June 30, 2022**

- Sales reached \$115.9 million, up 2.2% from the second quarter of 2021
- Combined sales<sup>(1)</sup> in the quarter, including our share of our NeoPollard Interactive LLC ("NPI") joint venture's sales, reached \$128.3 million, up 4.1% from the \$123.3 million achieved in 2021
- Income from operations was \$8.7 million, compared to \$12.1 million in the second quarter of 2021. A significant factor impacting the decline was the receipt of \$3.2 million in Canada Emergency Wage Subsidy ("CEWS") in 2021, recorded as other income, compared to \$nil received in 2022
- Adjusted EBITDA<sup>(1)</sup> achieved in the second quarter of 2022 of \$18.9 million decreased from \$22.6 million in the second quarter of 2021, also reflecting the reduction in CEWS received relative to 2021 of \$3.2 million
- NPi continued to demonstrate strong organic growth when compared to the second quarter of 2021, and both NPi and the Michigan iLottery operation have grown sequentially over the past year, achieving our second highest quarterly margin of \$7.5 million
- Charitable gaming and eGaming systems businesses continue to experience unprecedented demand, achieving strong revenues and earnings
- Our instant ticket production and sales volumes were negatively impacted due to a number of factors including staffing and production challenges
- Retail sales of instant ticket products remain at strong levels
- Ongoing inflationary cost increases on our key instant ticket inputs (paper, ink and freight) continue to negatively impact margins
- Our strategy of increased selling prices on contract extensions and RFP's is seeing success in its early roll out and will help mitigate our current margin pressures in the quarters to come
- Effective immediately, our former Director Dr. Jerry Gray has been reappointed to serve as a Director until the May 2023 Annual General Meeting

(1) See Non-GAAP measures for explanation

"Our second quarter results are comparable with our first quarter of 2022, reflecting the strong demand in our main product categories," declared John Pollard, Co-Chief Executive Officer. "In particular our charitable gaming businesses, including eGaming systems, and our iLottery operations generated very strong results again, combining strong revenue with effective cost management to produce very positive margins."

"Our largest business remains instant tickets, and we continued to see challenges in this area, notwithstanding the ongoing significant demand from our lottery customers. Increases in the prices of key inputs such as paper, ink and freight began in the later part of 2021 and continued with greater effect in the second quarter, with some further increases expected in the third and fourth quarters of 2022. The nature of our instant ticket contracts includes longer terms (averaging around four years) with primarily fixed prices for the entirety of the term and, as such, it is very difficult to pass on large input cost increases immediately."

"However, one of our key strategies to offset these input cost increases is to raise our selling prices during contract extensions and RFP's as they come up for bid. Although our average length of contract is in the four year range, a number of significant contracts are up for extension or rebid in 2022. While still early in the process, we have had a number of successes and indications from the lottery market of higher selling prices being accepted. Often these new contracts don't start until a few months into the future so while we may not see significant immediate positive impact to our margins, the foundation is being set for improved margins over time. In the immediate term, we continue to execute other strategies to help mitigate the significant input cost increases as well."

"Our second quarter instant ticket production volume fell short of our budget by approximately 8-10% and was lower than our record production volume achieved in the first quarter of this year. A number of factors negatively impacted our production volume including: continuing challenges recruiting and retaining entry level staff, increased staffing challenges with a higher number of call-outs and absences impacting efficiency, a higher number of unexpected mechanical and production issues, and greater complexity of work as we start into our specialty season. Our sales volumes were also lower than budget reflecting the lower production volume, further negatively impacting our margins."

"We are focused on increasing our production volumes going forward as this is one of our best levers to help mitigate the higher input costs associated with our instant tickets. We believe a number of initiatives we have implemented will address the issues experienced in the second quarter and expect our production numbers to be higher in the third quarter and beyond."

"Demand for all of our main products remains very strong," remarked Doug Pollard, Co-Chief Executive Officer. "Instant ticket sales at retail remain at the high levels experienced in the first quarter of 2022, and as a result our lottery orders also remain very strong. Charitable gaming, including our eGaming systems solutions, are also seeing very strong consumer demand and our iLottery financial results achieved its second highest quarterly results ever. Lotteries are increasingly looking at new and innovative methods to provide

exciting gaming opportunities to their customers, such as in-lane purchasing solutions and new game content, and Pollard is well positioned to take advantage of these new opportunities.”

“Charitable gaming and eGaming systems results continue to be very strong as consumer demand remains very robust. Our pull-tab and bingo paper business generated significant positive results again in the second quarter as sales demand allows us to sell everything we produce and we continue to focus on increasing our production capacity. Strong margins reflect the strength of the current demand and our ability to pass on cost increases in this particular area.”

“eGaming systems (including our Diamond Game and Compliant Gaming brands) continue to achieve record results through the use of expanded game content on our devices, including the use of progressive jackpots in certain jurisdictions, improved game content and increased installation of machines, including additional sites. As charities look to expand their involvement in eGaming, we believe Pollard is uniquely situated to capitalize on these opportunities.”

“Our iLottery operations achieved significant growth when compared to the second quarter of 2021 and sequentially over the last few quarters. The \$7.5 million margin earned from all of our iLottery contracts is second only to the first quarter of 2021, which experienced a very large double jackpot run. Strong gross gaming revenue growth was attained in Virginia and Alberta. And Michigan continues its steady recent growth, with margins the highest in the last four quarters, along with good cost control also contributing positively.”

“We remain very excited about our business and the opportunities before us,” concluded John Pollard. “While it will take time to absorb our unprecedented key input cost increases and return our instant ticket margins to their historic levels through higher selling prices, we have already seen the market accepting higher pricing during contract extensions and RFP’s and we believe this will continue. And our remaining businesses including charitable gaming, eGaming systems and iLottery remain extremely strong with expectations this will continue to provide growth in the future.”

### **Dr. Jerry Gray reappointed Independent Director**

Pollard is pleased to announce today the reappointment of Dr. Jerry Gray as an Independent Director of Pollard effective immediately.

Dr. Gray had previously served as a Director of Pollard and its preceding businesses from the time of the initial IPO in 2005 until his retirement in 2021. During that time, he was an integral part of the leadership team and provided significant counsel to Pollard’s senior management.

He has agreed to be reappointed to the Board of Directors on an interim basis until a permanent Director will be elected, which is anticipated to occur at the May 2023 annual general meeting.

Dr. Gray's extensive experience and knowledge of Pollard will be extremely helpful in moving the business forward and he will also be joining the Audit, Compensation and Governance and Nominating Committees immediately.

In addition to his 16 years serving on the Board of Pollard, Jerry is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership. He is Past Chair of the Winnipeg Regional Health Authority and a former director and Chairman of the Board of Directors of Gendis, Inc. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service and strategic planning.

Gordon Pollard, Chairman of Pollard, stated, "Jerry is a tremendous resource and possesses a wealth of knowledge from his sixteen years of previous service to our business and we are very pleased he has agreed to join the board on an interim basis. We will continue to invest the time and resources to identify the right high-quality candidate for election to our Board of Directors and anticipate we will put forward for election a permanent independent director at the annual general meeting in May 2023. Until that time, Jerry will provide his keen insight to help Pollard continue to excel in a seamless manner from both a business and a corporate governance perspective."

Jerry Gray commented, "I am thrilled to be able to assist Pollard again through my participation as a Director on the Board and I look forward to helping the leadership team continue its successful growth, particularly given the exciting opportunities that exist at this time in both the lottery and charitable gaming markets."

### **Use of GAAP and Non-GAAP Financial Measures**

The selected financial and operating information has been derived from, and should be read in conjunction with, the unaudited condensed consolidated financial statements of Pollard as at and for the three and six months ended June 30, 2022. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

Reference to "EBITDA" is to earnings before interest, income taxes, depreciation, amortization and purchase accounting amortization. Reference to "Adjusted EBITDA" is to EBITDA before unrealized foreign exchange gains and losses, and certain non-recurring items including acquisition costs, litigation settlement costs, contingent consideration fair value adjustments and insurance proceeds (net). Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Reference to "Combined sales" is to sales recognized under GAAP plus Pollard's 50% proportionate share of NeoPollard Interactive LLC's ("NPI") sales, its iLottery joint venture

operation. Reference to "Combined iLottery sales" is to sales recognized under GAAP for Pollard's 50% proportionate share of its Michigan Lottery joint iLottery operation plus Pollard's 50% proportionate share of NPi's sales, its iLottery joint venture operation.

EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales are measures not recognized under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, these measures may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales should not be construed as alternatives to net income or sales as determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

### ***Forward-Looking Statements***

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

## POLLARD BANKNOTE LIMITED

Pollard is one of the leading providers of products and solutions to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world. In addition, management believes Pollard is also the second largest bingo paper and pull-tab supplier to the charitable gaming industry in North America and, through its 50% joint venture, the largest supplier of iLottery solutions to the U.S. lottery market.

On January 14, 2021, Pollard completed the acquisition of Next Generation Lotteries AS ("NGL"). On December 31, 2020, Pollard signed a definitive agreement to acquire 100% of the equity of NGL for a purchase price of €36.0 million (\$56.5 million), prior to standard working capital adjustments and certain deferred cash considerations, of which €4.0 million (\$5.9 million) will be paid upon the achievement of certain gross margin targets in 2021. The purchase price was funded from existing Pollard cash resources and availability under the existing credit facilities, and the issuance of treasury shares of Pollard for approximately €5.2 million (\$8.0 million).

<b>HIGHLIGHTS</b>	<b>Three months ended <u>June 30, 2022</u></b>	<b>Three months ended <u>June 30, 2021</u><sup>(1)</sup></b>
<b>Sales</b>	\$ 115.9 million	\$ 113.4 million
<b>Gross profit</b>	\$ 21.2 million	\$ 22.9 million
<b><i>Gross profit % of sales</i></b>	<i>18.3%</i>	<i>20.2%</i>
<b>Administration expenses</b>	\$ 12.3 million	\$ 11.1 million
<b>Selling expenses</b>	\$ 4.5 million	\$ 4.2 million
<b>NPi equity investment income</b>	(\$ 5.1 million)	(\$ 2.5 million)
<b>Other (income) expenses</b>	\$ 0.8 million	(\$ 2.0 million)
<b>Unrealized foreign exchange (gain) loss</b>	\$ 2.4 million	(\$ 1.6 million)
<b>Net income</b>	\$ 2.5 million	\$ 7.7 million
<b>Net income per share – basic and diluted</b>	\$ 0.09	\$ 0.29
<b>Adjusted EBITDA:</b>		
<b>Lotteries and charitable gaming eGaming systems</b>	\$ 11.4 million 7.5 million	\$ 18.5 million 4.1 million
<b>Total adjusted EBITDA</b>	<u>\$ 18.9 million</u>	<u>\$ 22.6 million</u>

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

	<b>Six months ended June 30, 2022</b>	<b>Six months ended June 30, 2021<sup>(1)</sup></b>
<b>Sales</b>	\$ 229.8 million	\$ 225.6 million
<b>Gross Profit</b>	\$ 43.2 million	\$ 47.7 million
<b><i>Gross Profit % of sales</i></b>	<i>18.8%</i>	<i>21.1%</i>
<b>Administration expenses</b>	\$ 24.3 million	\$ 23.2 million
<b>Selling expenses</b>	\$ 9.0 million	\$ 8.1 million
<b>NPI equity investment income</b>	(\$ 9.0 million)	(\$ 6.5 million)
<b>Other (income) expenses</b>	\$ 0.8 million	(\$ 1.5 million)
<b>Unrealized foreign exchange (gain) loss</b>	\$ 1.7 million	(\$ 2.5 million)
<b>Net income</b>	\$ 8.9 million	\$ 15.1 million
<b>Net income per share – basic and diluted</b>	\$ 0.33	\$ 0.56
<b>Adjusted EBITDA:</b>		
<b>Lotteries and charitable gaming</b>	\$ 24.0 million	\$ 38.3 million
<b>eGaming systems</b>	13.9 million	7.6 million
<b>Total adjusted EBITDA</b>	<u>\$ 37.9 million</u>	<u>\$ 45.9 million</u>

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

**SELECTED FINANCIAL INFORMATION**

(millions of dollars)	Three months ended June 30, 2022 (unaudited)	Three months ended June 30, 2021 <sup>(1)</sup> (unaudited)	Six months ended June 30, 2022 (unaudited)	Six months ended June 30, 2021 <sup>(1)</sup> (unaudited)
Sales	\$115.9	\$113.4	\$229.8	\$225.6
Cost of sales	94.7	90.5	186.6	177.9
Gross profit	21.2	22.9	43.2	47.7
Administration expenses	12.3	11.1	24.3	23.2
Selling expenses	4.5	4.2	9.0	8.1
Equity investment income	(5.1)	(2.5)	(9.0)	(6.5)
Other (income) expenses	0.8	(2.0)	0.8	(1.5)
Income from operations	8.7	12.1	18.1	24.4
Foreign exchange (gain) loss	2.6	(0.7)	2.2	(0.2)
Interest expense	2.1	1.1	3.9	2.2
Income before income taxes	4.0	11.7	12.0	22.4
Income taxes:				
Current	2.8	4.8	5.5	9.1
Deferred reduction	(1.3)	(0.8)	(2.4)	(1.8)
Net income	\$2.5	\$7.7	\$8.9	\$15.1
Adjustments:				
Amortization and depreciation	9.7	9.9	19.4	19.2
Interest	2.1	1.1	3.9	2.2
Income taxes	1.5	4.0	3.1	7.3
EBITDA	\$15.8	\$22.7	\$35.3	\$43.8
Unrealized foreign exchange (gain) loss	2.4	(1.6)	1.7	(2.5)
Acquisition costs	0.0	0.4	0.0	1.0
Contingent consideration fair value adjustment	0.7	1.1	0.9	1.1
Litigation settlement cost	0.0	0.0	0.0	2.5
Total Adjusted EBITDA	\$18.9	\$22.6	\$37.9	\$45.9

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

	June 30, 2022	December 31, 2021
Total Assets	\$471.4	\$461.4
Total Non-Current Liabilities	\$156.1	\$163.5



## Results of Operations – Three months ended June 30, 2022

During the three months ended June 30, 2022, Pollard achieved sales of \$115.9 million, compared to \$113.4 million in the three months ended June 30, 2021. Factors impacting the \$2.5 million sales increase were:

- eGaming systems revenue increased sales by \$3.0 million, largely due to a higher number of eGaming machines placed at charitable establishments as compared to 2021.
- The higher average selling price of charitable games in 2022 also increased sales by \$2.7 million, as we have been able to pass along inflationary cost increases to our charitable gaming customers.
- Charitable gaming sales volumes were lower in the second quarter of 2022 when compared to the record high pull-tab sales volumes achieved in the second quarter of 2021, decreasing sales by \$1.7 million. Despite ongoing similar strong demand in 2022, 2021 sales volumes were boosted by additional sales from pre-existing inventory.
- A higher instant ticket average selling price increased sales by \$2.1 million as compared to 2021 due to increased proprietary product sales. This increase was partially offset by a decrease in instant ticket sales volumes in 2022, which decreased sales by \$1.3 million.
- Lower sales of ancillary lottery products and services decreased revenue by \$3.8 million as compared to 2021. This decline was largely due to decreased sales of licensed products, partially offset by increased sales of digital products.
- Lower sales from Michigan iLottery also decreased revenue in 2022 by \$0.7 million as compared to 2021.
- During the three months ended June 30, 2022, Pollard generated approximately 72.4% (2021 – 69.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2022, the actual U.S. dollar value was converted to Canadian dollars at \$1.269, compared to a rate of \$1.226 during the second quarter of 2021. This 3.5% increase in the U.S. dollar value resulted in an approximate increase of \$2.8 million in revenue relative to the second quarter of 2021. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.6 million in revenue relative to the second quarter of 2021.

Cost of sales was \$94.7 million in the second quarter of 2022 compared to \$90.5 million in the second quarter of 2021. The increase of \$4.2 million in cost of sales was primarily

the result of inflationary pressures on raw material costs, increases in certain manufacturing overhead costs and higher exchange rates on U.S. dollar denominated expenses in 2022. Partially offsetting these increases were decreases in instant ticket and licensed product sales volumes as compared to the second quarter of 2021.

Gross profit was \$21.2 million (18.3% of sales) in the second quarter of 2022 compared to \$22.9 million (20.2% of sales) in the second quarter of 2021. This decrease of \$1.7 million in gross profit was primarily a result of lower instant ticket production volumes, lower instant ticket sales margins, due to a less profitable customer mix and increased manufacturing costs, including the impact of inflation, and lower Michigan iLottery sales as compared to 2021. These decreases were partially offset by the increases in eGaming systems, charitable gaming, and digital product sales as compared to 2021. The lower gross margin percentage was largely due to the impact of inflationary cost increases of instant ticket inputs and lower Michigan iLottery sales, partially offset by increases in eGaming systems, charitable gaming and digital product sales.

Administration expenses were \$12.3 million in the second quarter of 2022 and \$11.1 million in the second quarter of 2021. Increased compensation and travel related costs incurred in the second quarter of 2022 were partially offset by a reduction in acquisition costs.

Selling expenses increased to \$4.5 million in the second quarter of 2022 from \$4.2 million in the second quarter of 2021. The increase was primarily due to increased customer contract costs incurred in the second quarter of 2022.

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to \$5.1 million in the second quarter of 2022 from the \$2.5 million achieved in the second quarter of 2021. Contracts held by NPi continued to experience organic growth throughout the second quarter of 2022, increasing NPi's revenue as compared to 2021.

Other expenses were \$0.8 million in the second quarter of 2022 compared to \$2.0 million of other income achieved in the second quarter of 2021. This change of \$2.8 million was primarily due to the reduction in CEWS, as Pollard received \$nil in the second quarter of 2022 as compared to \$3.2 million received in the second quarter of 2021. Partially offsetting this reduction in other income was the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant acquisition, of \$0.4 million as compared to 2021.

The net foreign exchange loss was \$2.6 million in the second quarter of 2022 compared to a net foreign exchange gain of \$0.7 million in the second quarter of 2021. The 2022 net foreign exchange loss of \$2.6 million consisted of an unrealized foreign exchange loss of \$2.4 million, primarily a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar. In addition, Pollard incurred a realized foreign exchange

loss of \$0.2 million, primarily due to foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2021 net foreign exchange gain of \$0.7 million resulted in part from a \$1.6 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar. This unrealized gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. Partially offsetting this unrealized gain was a \$0.9 million realized foreign exchange loss as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA decreased to \$18.9 million in the second quarter of 2022 compared to \$22.6 million in the second quarter of 2021. The primary reasons for the \$3.7 million decrease in Adjusted EBITDA include the reduction in other income (net of contingent consideration) of \$3.2 million, largely due to the reduction in CEWS proceeds received as compared to 2021. Also contributing to this decrease is the reduction in gross profit of \$1.9 million (net of amortization and depreciation), primarily due to lower instant ticket production volumes, lower instant ticket sales margins, including the impact of inflation, and lower Michigan iLottery sales, partially offset by the increases in eGaming systems, charitable gaming and digital product sales as compared to 2021. The increase in administration costs (net of acquisition costs) of \$1.6 million and the increase in selling costs of \$0.3 million also decreased Adjusted EBITDA in comparison to 2021. Partially offsetting these decreases to Adjusted EBITDA were an increase in equity investment income of \$2.6 million and the lower realized foreign exchange loss of \$0.7 million.

Interest expense increased to \$2.1 million in the second quarter of 2022 from \$1.1 million in the second quarter of 2021, primarily due to the increase in interest accretion on the discounted contingent consideration liability relating to the Compliant purchase of \$0.5 million and an increase in interest rates, partially offset by a decrease in average long-term debt outstanding as compared to 2021.

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled \$9.7 million during the second quarter of 2022 which decreased from \$9.9 million during the second quarter of 2021. This decrease of \$0.2 million was largely due to certain intangibles becoming fully amortized during 2021, which was partially offset by depreciation and amortization taken on newly acquired property, plant and equipment, and intangible assets.

Income tax expense was \$1.5 million in the second quarter of 2022, an effective rate of 38.2%, which was higher than our domestic rate of 27.0% due primarily to the changes enacted with regards to the United Kingdom's corporation tax rates and the effect of non-taxable items related to foreign exchange, partially offset by the effect of the lower federal income tax rates in the United States.

Income tax expense was \$4.0 million in the second quarter of 2021, an effective rate of 34.2%, higher than our domestic rate of 27.0% due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

Net income was \$2.5 million in the second quarter of 2022 compared to \$7.7 million in the second quarter of 2021. The decrease in net income of \$5.2 million was due primarily to the increase in other expenses of \$2.8 million, largely due to the reduction in CEWS proceeds received as compared to 2021 of \$3.2 million, and the increase in net foreign exchange loss of \$3.3 million. The decrease in gross profit of \$1.7 million also reduced net income as compared to 2021, primarily due to lower instant ticket production volumes, lower instant ticket sales margins, including the impact of inflation, and lower Michigan iLottery sales, but partially offset by the increases in eGaming systems, charitable gaming and digital product sales. Other factors contributing to the decrease in net income were the increase in administration expenses of \$1.2 million, the increase in interest expense of \$1.0 million and the increase in selling expenses of \$0.3 million. Partially offsetting these decreases to net income were the increase in equity investment income of \$2.6 million and a decrease in income tax expense of \$2.5 million.

Net income per share (basic and diluted) decreased to \$0.09 per share in the second quarter of 2022 from \$0.29 per share in the second quarter of 2021.

### **Results of Operations – Six months ended June 30, 2022**

During the six months ended June 30, 2022, Pollard achieved sales of \$229.8 million, compared to \$225.6 million in the six months ended June 30, 2021. Factors impacting the \$4.2 million sales increase were:

- Higher eGaming systems revenue increased sales by \$6.0 million due primarily to more retail establishments being open for the first two quarters of 2022 as compared to 2021, when a number of jurisdictions had closed retail establishments where eGaming machines are placed due to COVID-19, particularly during the first quarter of 2021. In addition, a higher number of eGaming machines placed at charitable establishments as compared to 2021 further contributed to the increase in eGaming systems sales.
- The higher average selling price of charitable games in the first two quarters of 2022 also increased sales by \$5.5 million, as we have been able to pass along inflationary cost increases to our customers.
- Charitable gaming sales volumes were lower in the first two quarters of 2022 when compared to the record high pull-tab sales volumes achieved in the first half of 2021, decreasing sales by \$2.5 million. Despite ongoing similar strong demand in 2022, 2021 sales volumes were boosted by additional sales from pre-existing inventory.

- Michigan iLottery sales were lower by \$3.2 million as compared to 2021, when Michigan iLottery sales were higher as a result of a double jackpot run in the first quarter of 2021.
- A lower instant ticket average selling price decreased sales by \$1.6 million as compared to 2021 due to lower margin customer mix, partially offset by increased proprietary product sales. This decrease was partially offset by an increase in instant ticket sales volumes in 2022, which increased sales by \$0.3 million. Lower sales of ancillary lottery products and services decreased revenue by \$1.7 million, largely due to decreased sales of licensed products, partially offset by increased sales of digital and loyalty products.
- During the six months ended June 30, 2022, Pollard generated approximately 71.5% (2021 – 69.7%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2022 the actual U.S. dollar value was converted to Canadian dollars at \$1.269, compared to a rate of \$1.249 the first six months of 2021. This 1.6% increase in the U.S. dollar value resulted in an approximate increase of \$2.6 million in revenue relative to the first six months of 2021. In addition, during the first six months of 2022, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$1.2 million in revenue relative to the first six months of 2021.

Cost of sales was \$186.6 million in the six months ended June 30, 2022, compared to \$177.9 million in the six months ended June 30, 2021. This increase of \$8.7 million was primarily a result of inflationary pressures on raw material costs, increases in certain manufacturing overhead costs and higher exchange rates on U.S. dollar denominated expenses in 2022. Partially offsetting these increases were decreases in ancillary lottery products and services sales, and charitable gaming sales volumes as compared to 2021.

Gross profit decreased to \$43.2 million (18.8% of sales) in the six months ended June 30, 2022, from \$47.7 million (21.1% of sales) in the six months ended June 30, 2021. This decrease in gross profit of \$4.5 million was primarily the result of lower instant ticket sales margins, due to a less profitable customer mix, lower Michigan iLottery sales and increased manufacturing costs, including the impact of inflation, as compared to 2021. This decrease was partially offset by increases in eGaming systems, charitable gaming and digital product sales, which increased gross profit as compared to 2021. The lower gross margin percentage was largely due to the change in the mix of instant tickets sales to lower margin customers, lower Michigan iLottery sales and the impact of inflationary cost increases, partially offset by increases in eGaming systems, charitable gaming and digital product gross margins as compared to 2021.

Administration expenses increased to \$24.3 million in the first six months of 2022 from \$23.2 million in the first six months of 2021. The increase of \$1.1 million was primarily a result of increased compensation, professional fees and travel related costs, partially offset by a reduction in acquisition costs.

Selling expenses increased to \$9.0 million in the first six months of 2022 from \$8.1 million in the first six months of 2021. The increase was primarily due to increased customer contract costs and higher compensation expenses.

Pollard's share of income from NPi increased to \$9.0 million in the first six months of 2022 from \$6.5 million in 2021. This \$2.5 million increase was primarily due to increased organic growth achieved on contracts held by NPi throughout the first two quarters of 2022, increasing NPi's revenue as compared to 2021.

Other expenses were \$0.8 million in the first six months of 2022 compared to \$1.5 million of other income in 2021. This change of \$2.3 million was partially due to Pollard receiving \$nil CEWS in 2022 compared to \$5.2 million received in 2021. However, in 2021, other income was partially offset by Pollard entering into an agreement for a one-time payment of \$2.5 million to settle all aspects of certain litigation regarding a patent dispute relating to our instant ticket production. In addition, contingent consideration fair value adjustment expenses, as part of our Compliant acquisition, decreased by \$0.2 million compared to 2021.

The net foreign exchange loss was \$2.2 million in the first six months of 2022 compared to a net foreign exchange gain of \$0.2 million in the first six months of 2021. The 2022 net foreign exchange loss of \$2.2 million resulted from a net unrealized foreign exchange loss of \$1.7 million, comprised predominately of an unrealized loss on U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar. In addition, Pollard experienced a realized foreign exchange loss of \$0.5 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2021 net foreign exchange gain of \$0.2 million resulted from a net unrealized foreign exchange gain of \$2.5 million, comprised predominately of an unrealized gain on U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar. Partially offsetting the unrealized gain was a \$2.3 million realized foreign exchange loss as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA decreased to \$37.9 million in the first six months of 2022 compared to \$45.9 million in the first six months of 2021. The primary reasons for the decrease of \$8.0 million include the decrease in gross profit (net of amortization and depreciation) of \$4.3 million, primarily the result of lower instant ticket sales margins, due to a less profitable customer mix, increased manufacturing costs, including the impact of inflation, and lower Michigan iLottery sales, partially offset by increases in eGaming systems, charitable gaming and digital product sales as compared to 2021. Other factors contributing to the decrease in Adjusted EBITDA include the reduction in other income (net of contingent consideration and litigation settlement) of \$5.1 million, primarily due to the reduction in CEWS received of \$5.2 million, higher administration expenses (net of acquisition costs) of \$2.1 million and higher selling expenses of \$0.9 million. These

decreases were partially offset by the increase in equity investment income of \$2.5 million and the reduction in realized foreign exchange loss of \$1.9 million.

Interest expense increased to \$3.9 million in the first six months of 2022 from \$2.2 million in the first six months of 2021, primarily as a result of the increase in interest accretion on the discounted contingent consideration liability relating to the Compliant purchase of \$1.3 million. Higher interest rates in 2022 also contributed to the increase in interest expense, partially offset by a decrease in average long-term debt outstanding as compared to 2021.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$19.4 million during the first six months of 2022 which increased from \$19.2 million during the first six months of 2021. The increase of \$0.2 million was primarily as a result of amortization and depreciation taken on newly acquired property, plant and equipment, and intangible assets, partially offset by the reduction in amortization expense due to certain intangibles becoming fully amortized during 2021.

Income tax expense was \$3.1 million in the first six months of 2022, an effective rate of 26.0%, which was lower than our domestic rate of 27.0% due primarily to the effect of the lower federal income tax rates in the United States, partially offset by changes enacted with regards to the United Kingdom's corporation tax rates and the effect of non-taxable items related to foreign exchange.

Income tax expense was \$7.3 million in the first six months of 2021, an effective rate of 32.4%, which was higher than our domestic rate of 27.0% due primarily to the tax effect of unrecognized non-capital losses and non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

Net income decreased to \$8.9 million in the first six months of 2022 from \$15.1 million in the first six months of 2021. The primary reasons for the decrease of \$6.2 million include the decrease in gross profit of \$4.5 million, primarily the result of lower Michigan iLottery sales and lower instant ticket sales margins, due to a less profitable customer mix and increased manufacturing costs, including the impact of inflation, as compared to 2021. This decrease in gross profit was partially offset by increases in eGaming systems, charitable gaming and digital product sales as compared to 2021. Other factors contributing to the decrease in net income include the increase in administration expenses of \$1.1 million, the increase in selling expenses of \$0.9 million, the increase in other expenses of \$2.3 million, the increase in interest expense of \$1.7 million and the increase in net foreign exchange loss of \$2.4 million. Partially offsetting these decreases were the increase in equity investment income of \$2.5 million and the decrease in income tax expense of \$4.2 million.

Net income per share (basic and diluted) decreased to \$0.33 per share in the six months ending June 30, 2022, as compared to \$0.56 per share in the six months ending June 30, 2021.

## iLottery

Pollard and its iLottery partner, Neogames US LLP (“Neogames”), provide iLottery services to the North American Lottery market. In 2013, Pollard was awarded an iLottery contract from the Michigan Lottery. As a result, Pollard entered into a contract with Neogames to provide its technology in return for a 50% financial interest in the operation. Under IFRS, Pollard recognizes its 50% share in the Michigan Lottery contract in its consolidated statements of income in revenue and cost of sales.

In 2014 Pollard, in conjunction with Neogames, established NeoPollard Interactive LLC (“NPI”). All iLottery related customer contracts, excluding the Michigan Lottery iLottery contract, have been awarded to NPI. Under IFRS, Pollard accounts for its investment in its joint venture, NPI, as an equity investment. Under the equity method of accounting, Pollard recognizes its share of the income and expenses of NPI separately as equity investment income.

### SELECT ILOTTERY RELATED FINANCIAL INFORMATION

(millions of dollars)

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
<b>Sales – Pollard’s share</b>										
Michigan iLottery	\$6.2	\$5.9	\$5.6	\$5.9	\$6.8	\$8.4	\$8.6	\$9.5	\$10.3	\$5.1
NPI	12.4	11.3	10.5	9.8	9.9	9.9	6.1	3.1	2.2	1.2
Combined iLottery sales	<u>\$18.6</u>	<u>\$17.2</u>	<u>\$16.1</u>	<u>\$15.7</u>	<u>\$16.7</u>	<u>\$18.3</u>	<u>\$14.7</u>	<u>\$12.6</u>	<u>\$12.5</u>	<u>\$6.3</u>
<b>Income (loss) before income taxes – Pollard’s share</b>										
Michigan iLottery	\$2.4	\$2.0	\$1.8	\$2.0	\$2.8	\$4.0	\$4.5	\$5.4	\$6.5	\$2.1
NPI	5.1	3.9	3.2	2.6	2.5	4.0	1.6	0.8	(0.3)	(0.5)
Combined income before income taxes – Pollard’s share	<u>\$7.5</u>	<u>\$5.9</u>	<u>\$5.0</u>	<u>\$4.6</u>	<u>\$5.3</u>	<u>\$8.0</u>	<u>\$6.1</u>	<u>\$6.2</u>	<u>\$6.2</u>	<u>\$1.6</u>

Beginning in the second quarter of 2020, with the onset of COVID-19, revenues from Pollard’s contract with the Michigan Lottery increased substantially. Contracts held by NPI also experienced significant organic growth, in addition to the sales increase from the Virginia Lottery operation which added e-Instants on July 1, 2020. As well, NPI’s contract with Alberta Gaming, Liquor & Cannabis (“AGLC”), went live with a limited product launch



on September 30, 2020, with additional gaming verticals launching throughout 2021. The substantial jackpots for POWERBALL® and Mega Millions® awarded in the latter half of January 2021 further increased sales significantly in the fourth quarter of 2020 and the first quarter of 2021.

Sales and income before income taxes from our Michigan iLottery operation declined starting in the second quarter of 2021 due to reduced draw-based game sales after the double jackpots in the first quarter of 2021, increased online gaming competition and new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021. In 2022, NPi continues to achieve strong organic growth, adding to sales and income before taxes.

## **Outlook**

Overall demand for our main products and solutions is strong and we expect this to continue. Consumer demand for charitable gaming, eGaming systems and instant ticket products sold at retail have remained high throughout 2022. While the growth in instant ticket retail sales volumes have steadied after significant increases experienced during the pandemic, sales remain at the high levels attained throughout the first quarter of 2022. This retail demand has translated into significant orders from lotteries.

Our iLottery business is showing strong organic growth, both sequentially and in comparison to historic quarters, and we anticipate this will continue going forward. Michigan iLottery has demonstrated resilient incremental growth over the last four quarters despite the competitive environment with private iGaming operations. All of our contracts within NPi have also shown strong organic growth and we expect this to carry on.

Our current instant ticket production schedule reflects significant order volumes; however, challenges in the second quarter negatively impacted our production. We have initiated a number of actions to mitigate these challenges. As a result, we anticipate improved production volumes in future quarters, capitalizing on this order volume which will lead to higher sales volumes.

Inflationary increases, particularly as it relates to key instant ticket inputs, will continue to be a challenge. A significant portion of these cost increases have been implemented already in the first and second quarters of 2022; however, their full impact is still being absorbed in our results. We are working diligently on a number of strategies to offset these increases, including investigating potential alternate sources for key inputs, increasing production output, expanding capacity and most important among these, bidding at higher selling prices on contract extensions and RFP's as they come available. We will continue to pursue this higher selling price strategy and are so far very encouraged at the acceptance by the market of this strategy in a number of jurisdictions. Higher selling prices are a critical component of recovering these significant cost increases and achieving appropriate gross margins.

Helping to mitigate margin pressure, our charitable and eGaming businesses are expected to produce strong financial results, due to high levels of consumer demand and our ability to pass along cost increases.

We continue to make great strides with investing in our business through increasing our resources, expanding our product portfolio and investing in the technological solutions our lottery and charitable gaming customers require. We remain very excited about the strength of demand for our products and solutions, and are confident our strategies will allow us to improve our instant ticket margins. This, combined with strong results in many other areas of our business, will allow us to return to levels of profitability reflective of the value of our company.

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